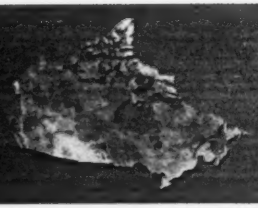

Canadian Natural Gas

›› Monthly Market Update

February 2010

›› Oil and Gas Policy, Analysis and Regulatory Affairs Division
Petroleum Resources Branch
Energy Sector

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Foreword

The Canadian Natural Gas: Monthly Market Update is a monthly analytical paper prepared by the Petroleum Resources Branch of Natural Resources Canada. The report provides the most recently available data on natural gas prices and related market fundamentals.

Please direct any comments or questions to Laura Cervoni at (613) 992-1023, or by email at laura.cervoni@nrcan.gc.ca

Executive Summary

Alberta natural gas prices remained above $5/GJ for most of the winter of 2010. Despite the increase in prices, natural gas continues to trade at a significant discount compared to crude oil on an energy-content basis.

Surging production of low-cost shale gas in the U.S., the economic downturn, and reduced industrial demand led to record levels of natural gas storage at the end of 2009. Storage levels in Canada are now returning to seasonal norms.

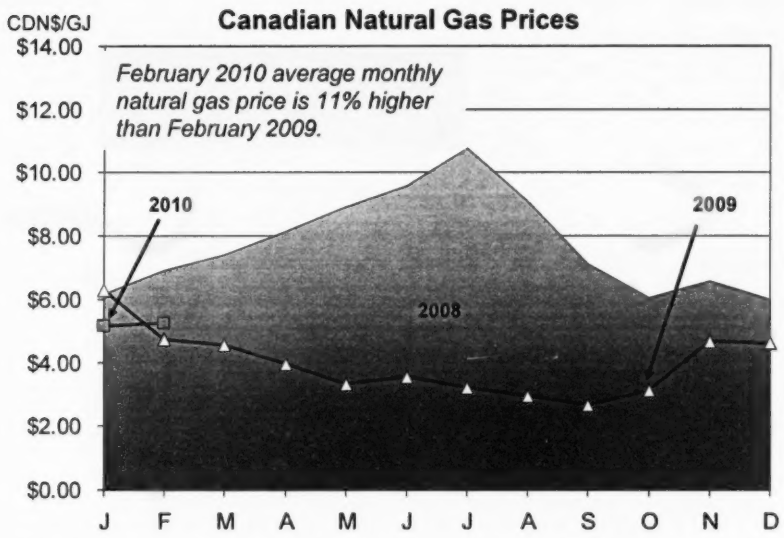
Industry remains focused on developing unconventional natural gas. Horizontal drilling is increasing, while conventional vertical drilling is declining. Compared to the previous month, there have been increases in both natural gas production and drilling. However, drilling in February 2010 still remains significantly below February 2009. Increasing Canadian natural gas imports are at least partially due to LNG imports arriving at the Canaport terminal in New Brunswick.

Natural Gas Market Fundamental	Value	Percentage Change	
		Month 2010 vs. Month 2009	Current Month vs. Previous Month
Prices, CAN $/GJ (Feb-10)	5.24	+11%	+2%
Heating Degree Days (Feb-10)	598	-8%	-15%
Production, Bcf (Dec-09)	478	-4%	+15%
Sales, Bcf (Dec-09)	299	-2%	+39%
Exports, Bcf (Dec-09)	309	-5%	+20%
Imports, Bcf (Dec-09)	75	+6%	+16%
Storage, Bcf (Feb-10)	370	+19%	-26%
Drilling, wells (Feb-10)	483	-55%	+41%

Note: GJ: Gigajoule; Bcf: Billion Cubic Feet

Sources:
- *Crude Oil and Natural Gas (Preliminary)*, Statistics Canada
- *Natural Gas Transportation and Distribution, 55-002*, Statistics Canada
- *Supply and Disposition of Crude Oil and Natural Gas, 26-006*, Statistics Canada
- *Drilling Highlights*, Daily Oil Bulletin website: www.dailyoilbulletin.com
- Canadian Natural Gas Focus, GLJ Energy Publications Inc.
- *Natural Gas Storage Survey*, Canadian Enerdata Ltd.
- *Natural Gas Export Statistics*, National Energy Board website: www.neb-one.gc.ca
- Canadian Gas Association, website: www.cga.ca

Figure 1

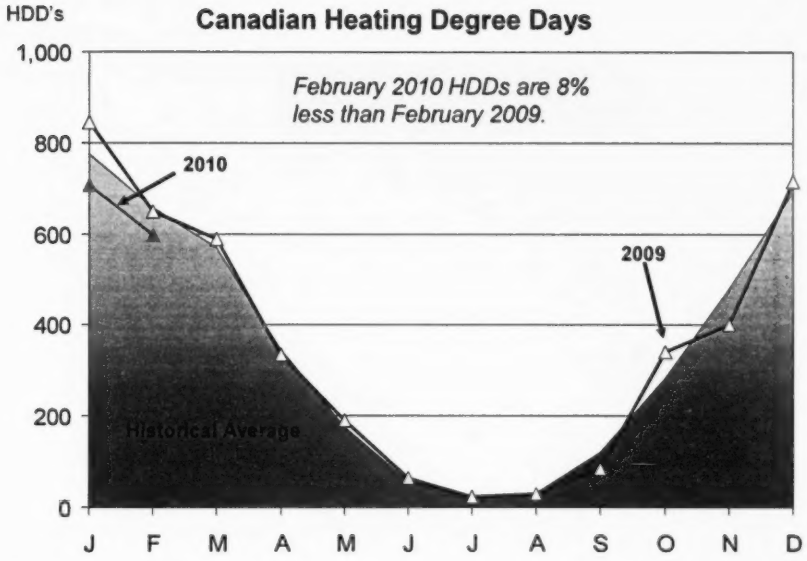


Source: GLJ Energy Publications **Note:** Canadian price is the Alberta price at the AECO hub.

Figure 1 illustrates the price of natural gas at the major Canadian pricing point – the Intra-Alberta market, a.k.a. AECO . The price is for gas delivered under a 30-day contract. The Intra-Alberta market is formed by gas delivered to pipelines in Alberta. Gas changes hands via Nova Inventory Transfers (NIT), exchanges at the AECO storage hub, or sales facilitated by the Natural Gas Exchange (NGX). This is a commodity price – a wholesale price in the producing area. Consumer (or "burner tip") prices will also include pipeline transmission and distribution costs, which vary across Canada. Natural gas is commonly measured in gigajoules (GJ) or cubic metres. A gigajoule is an energy unit, which equates to about 27 cubic metres of natural gas.

AECO natural gas prices averaged CDN $5.24/GJ in February 2010, 2% higher than the previous month and 11% higher than February 2009.

Figure 2



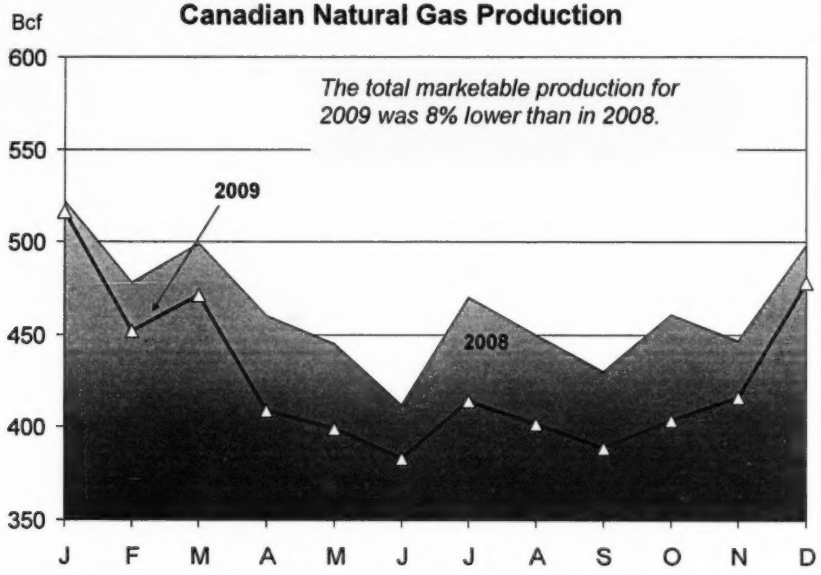
Source: Canadian Gas Association, NRCan

Figure 2 shows Canadian heating degree days (HDDs), which are a measure of how cold it is. The more HDDs in any season, the greater is natural gas demand for space heating. If a winter is unusually cold, demand for space heating will respond accordingly and natural gas prices will tend to be stronger. However, during a mild winter, natural gas demand for space heating will be weaker, which will tend to moderate prices.

In February 2010, there were 598 HDDs, 8% less than February 2009, and 15% less than the previous month. On average, February 2010 had 9% less HDDs than normal. The decrease in HDDs can be attributed to the warmer than normal weather this winter.

Figure 3

Canadian Natural Gas Production



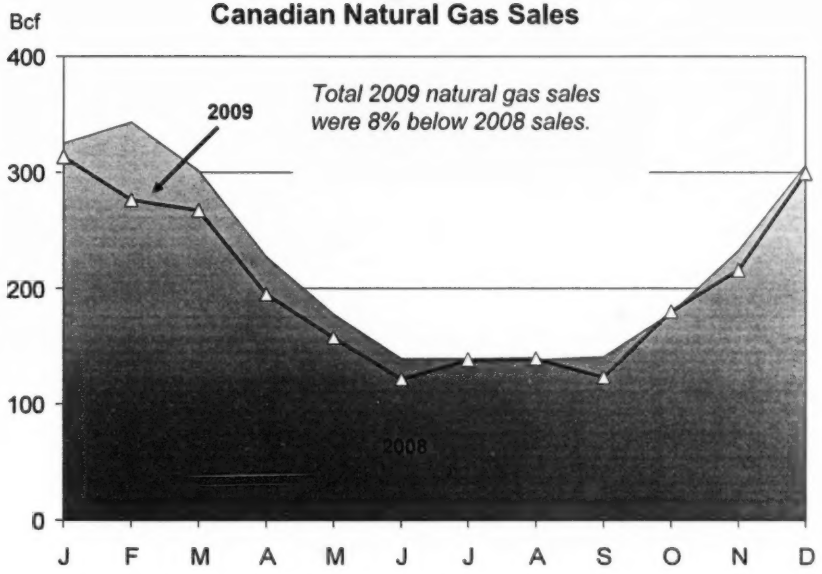
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 3 shows marketable natural gas production in Canada. Marketable natural gas is the gas available for consumption after processing and excludes producer or plant uses.

The total marketable natural gas production for 2009 was 8% lower than 2008.

Figure 4

Canadian Natural Gas Sales



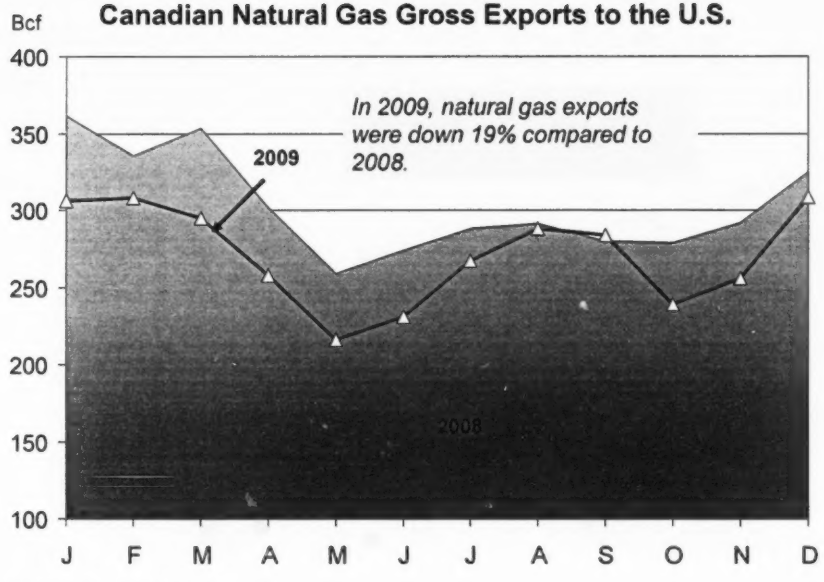
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 4 illustrates total Canadian natural gas sales. Sales include all natural gas sold to residential and commercial users (for space and water heating, cooking, etc), industries and electricity generating units in Canada. The totals do not include consumption by the natural gas industry itself (e.g., pipeline compressor fuel).

Natural gas sales to Canadian consumers in 2009 were 8% lower than sales in 2008.

Figure 5

Canadian Natural Gas Gross Exports to the U.S.



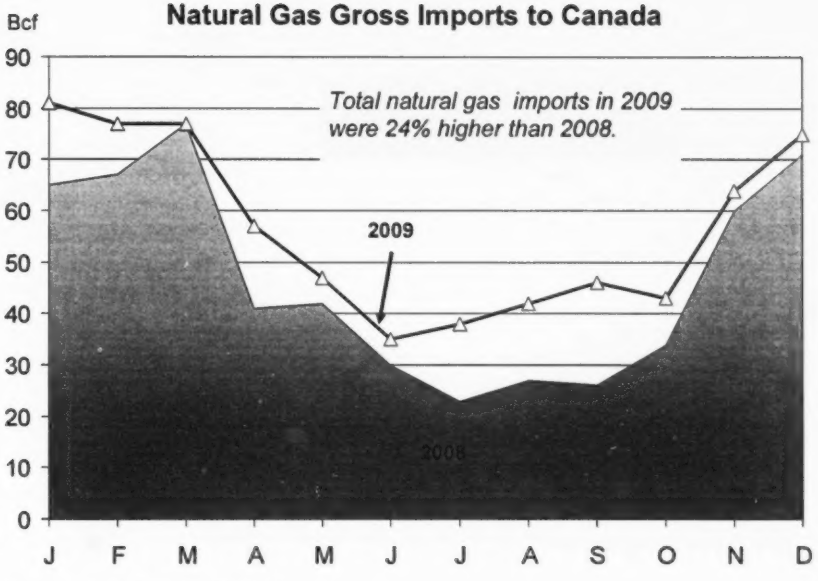
Source: National Energy Board

Figure 5 illustrates natural gas exports to the U.S. Canadian natural gas requirements are met mostly by domestic sources, as Canada produces natural gas in excess of what is required for domestic consumption. In comparison, the U.S. consumes more natural gas than it produces, therefore natural gas imports are required to make up the difference. Typically, Canada exports between 50 and 60 per cent of its gas production.

In 2009, total natural gas exports to the U.S. were 19% lower than 2008.

Figure 6

Natural Gas Gross Imports to Canada



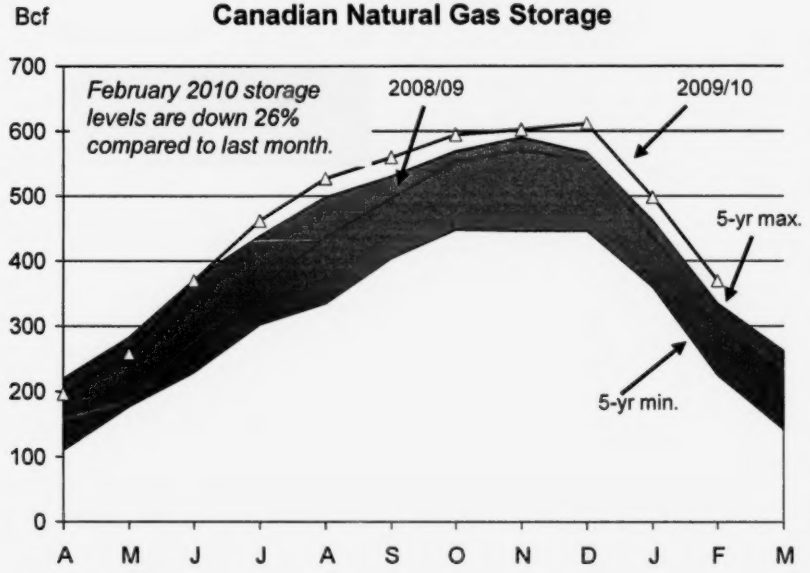
Source: National Energy Board

Figure 6 illustrates natural gas imports to Canada. Most natural gas is imported into Canada through major import points in southern Ontario. Imports into southern Ontario will likely rise in the future, as the province purchases more gas from the rest of North America due to flat production in the Western Canadian Sedimentary Basin. Presently, import volumes are significantly less than export volumes, and Canada remains a net exporter of natural gas.

In 2009, natural gas imports to Canada were 24% higher than 2008.

Figure 7

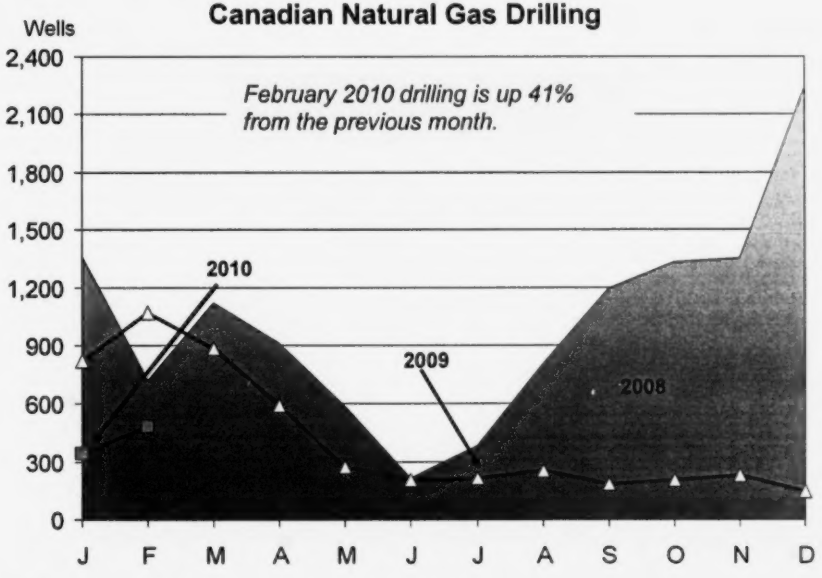
Canadian Natural Gas Storage



Source: Canadian Enerdata

Figure 8

Canadian Natural Gas Drilling



Source: Daily Oil Bulletin

Figure 7 illustrates natural gas storage levels in Canada. The amount of gas in storage generally follows a seasonal pattern. In the summer, when natural gas demand is low, gas is injected into storage. Storage volumes peak in the fall. In winter, volumes are drawn down, reaching a low point in the spring.

Canadian natural gas storage inventories decreased by 129 Bcf during the month of February 2010 compared to January 2010.

Figure 8 depicts the number of natural gas well completions in Canada. There is a time-lag between drilling a gas well and starting production, due to the work necessary to connect the new well to the pipeline grid. Drilling is therefore a good indicator of future natural gas supply.

There were 483 natural gas wells drilled in February 2010, an increase of 41% from January 2010 and a decrease of 55% from February 2009.